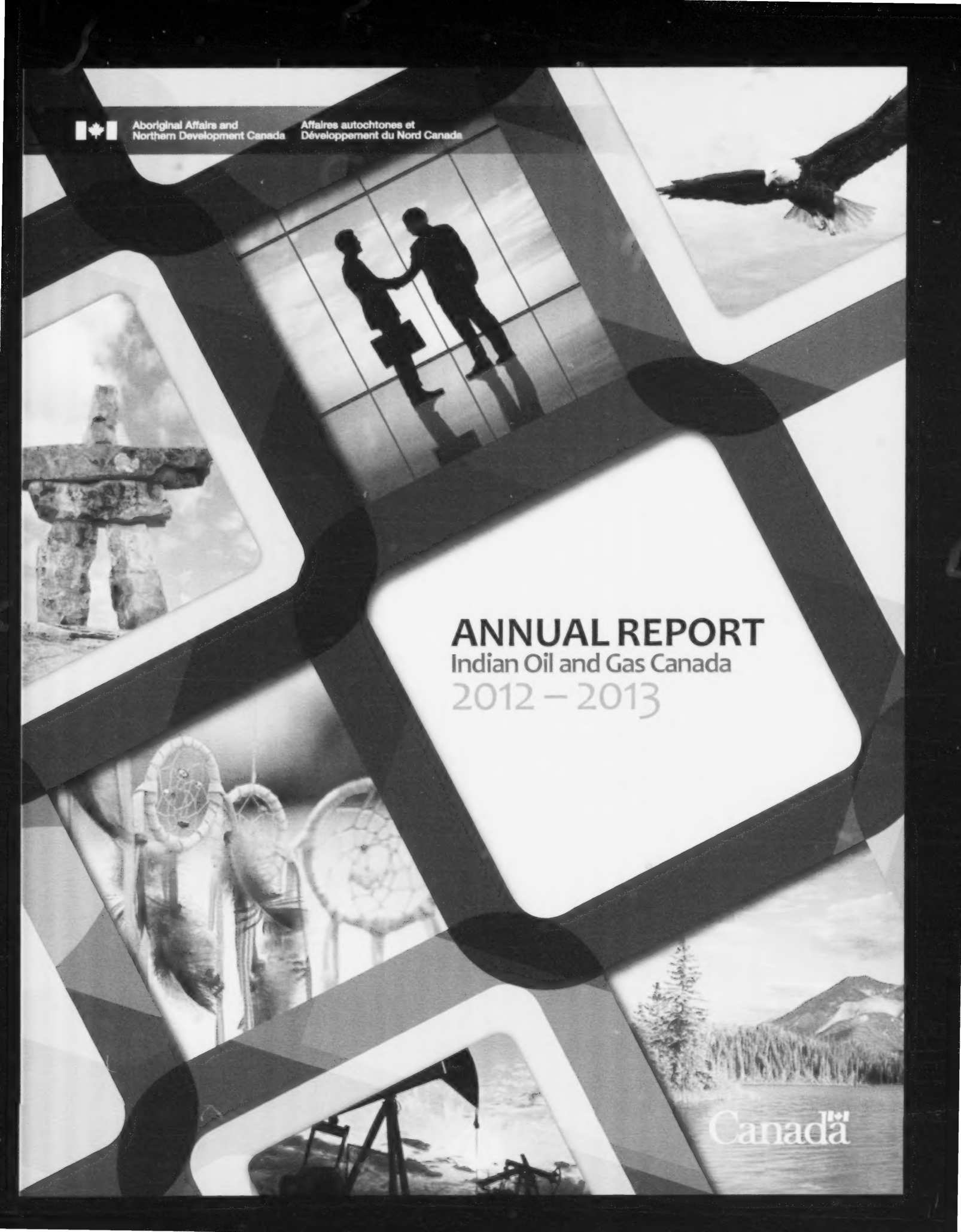
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Affaires autochtones et Développement du Nord Canada
ANNUAL REPORT
Indian Oil and Gas Canada
2012 – 2013
Canada

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TO OUR STAKEHOLDERS

For the 2012-2013 fiscal year three key projects were identified as priorities with each having significant impact. These projects were:

- Modern Act, Regulations and Systems (MARS)
- Interest Statement Automation
- Royalty Management

The MARS project was initiated in 2010-2011 to guide the modernization of the *Indian Oil and Gas Act*, and the *Indian Oil and Gas Regulations*, 1995, with its associated systems. The MARS project was again, IOGC's top priority for 2012-2013.

Modernization of the *Indian Oil and Gas Act* and associated Regulations has been a key project of IOGC for several years. The first phase of the project was completed with the granting of Royal Assent to the amended *Indian Oil and Gas Act* in May 2009. Subsequent phases of the project have included the development of new Regulations, as well as business process and informatics enhancements to support the implementation of the new Act and Regulations.

In 2012-2013 all Regulatory Drafting Instructions were completed. This involved the preparation of more than 6,600 pages of material for regulatory drafters to review and consider. Most of this material has already been made available for review by First Nations through their representatives on the Joint Technical Committee (JTC-1).

The Interest Statement Automation project's goal is to automate the collection of interest on late payment of trust funds and establish an accounts receivable system consistent with future needs. This is a multi-year project. When fully completed, this project will result in business and system processes to support the downloading of interest rates, calculation of interest for land and royalty amounts due and overpayments, including adjustments to the interest; monthly company statements; and collections / notices to comply. This year we worked on requirements analysis and resolved key royalty issues with the working team.

The Royalty Management project will implement changes arising from the Alberta and Saskatchewan, and any other applicable provincial Royalty Regimes, in order to assess royalties. It also will ensure royalty assessments are accurate, complete and timely and minimize royalty over and under payments. The key milestones for this project will be completed in fiscal year 2013-2014.

In addition to these projects, IOGC underwent the most significant organizational restructuring since its establishment more than 25 years ago. The new IOGC organizational structure was in place on April 1, 2013.

This year IOGC celebrated its 25th Anniversary. A ceremony took place November 20th at the Tsuu T'ina Nation Council Chambers. In attendance with IOGC staff were senior officials from Aboriginal Affairs and Northern Development Canada; members of the IOGC Board; Indian Resource Council; Chiefs and Councillors; business leaders and delegates from oil and gas producing First Nations, and industry came together to celebrate this important milestone in our history.

On the operations side, the weak natural gas prices in 2012 were reflected in a very strong move away from dry gas plays to liquids-rich gas and oil plays. As a result, fewer wells were drilled and gas royalties decreased. In total, IOGC collected $176.7 million on behalf of First Nations and issued a total of 120 new surface agreements and 11 subsurface agreements. More details on our operations activity are contained in this report.

In closing, I would like to acknowledge the contributions of all our employees, partners and clients throughout the year. We certainly accomplished a lot this year and that would not have been possible without all of you.

Sincerely,

STRATER CROWFOOT
Executive Director and CEO

I would like to acknowledge the contributions of all our employees, partners and clients throughout the year. We certainly accomplished a lot this year and that would not have been possible without all of you.

HISTORY OF INDIAN OIL AND GAS CANADA (IOGC) AND RELATED LEGISLATION

The Government of Canada has a broad mandate relating to First Nation issues, which is derived largely from existing legislation and legal obligations arising from section 91(24) of the *Constitution Act, 1867*. Aboriginal Affairs and Northern Development Canada (AANDC) is entrusted with fulfilling various obligations of the federal government to Aboriginal peoples as outlined in the constitution, treaties, the *Indian Act*, and other legislation. Included in this obligation is the management of natural resources on First Nation reserve lands, including oil and gas.

Oil and gas development on First Nation reserve lands has been legislated since 1974 under the *Indian Oil and Gas Act* and, before that, under the *Indian Act*. In 1977, the *Indian Oil and Gas Regulations* were promulgated and brought under the *Indian Oil and Gas Act*. The Regulations were revised in 1995.

In 1987, IOGC was established, replacing Indian Minerals West as a dedicated branch within the Department of Indian Affairs and Northern Development to manage oil and gas development and to further First Nation initiatives to manage and control their resources. In 1993, IOGC was affirmed as a Special Operating Agency to increase its client focus.

AANDC ORGANIZATIONAL CHART

Minister of Aboriginal Affairs and Northern Development and Federal Interlocutor for Métis and Non-Status Indians
THE HONOURABLE BERNARD VALCOURT
DEPUTY MINISTER, MICHAEL WERNICK
ASSOCIATE DEPUTY MINISTER, COLLEEN SWORDS
SECTORS
Treaties & Aboriginal Government
Policy & Strategic Direction
Education & Social Development Programs and Partnerships
Chief Financial Officer
Office of the Federal Interlocutor
Lands & Economic Development
SARA FILBEE, ADM
Inuit Relations Secretariat
Resolution & Individual Affairs
Regional Operations and Community Infrastructure
Northern Affairs Organizations
Indian Residential Schools Adjudication Secretariat
CORPORATE SERVICES
Communications
Human Resources & Workplace Services
Audit & Evaluation
Corporate Secretary
Legal Services Unit
SPECIAL OPERATING AGENCIES
Indian Oil & Gas Canada
STRATER CROWFOOT, CEO
Reginal Offices South of 60°
Reginal Offices North of 60°

STATUTORY AUTHORITIES

IOGC operates in accordance with provisions of the *Indian Oil and Gas Act* and the *Indian Oil and Gas Regulations, 1995*.

IOGC also operates in accordance with associated federal legislation including provisions of the *Indian Act*, *Canadian Environmental Assessment Act*, the *Financial Administration Act* and other relevant legislation.

IOGC CO-MANAGEMENT BOARD

IOGC operates under the direction of an Executive Director/ Chief Executive Officer who participates as a member of the IOGC Co-Management Board. The Board was established in 1996 by the signing of a Memorandum of Understanding (MOU) between the Minister of Indian Affairs and the Indian Resource Council (IRC) to co-manage IOGC operations. The Board focuses on areas of collective interests.

There are nine members on the IOGC Co-Management Board. The Board is made up of the IRC Chair and five other members appointed by the IRC. Two positions are named AANDC positions; the Assistant Deputy Minister of Lands and Economic Development and the CEO and Executive Director of IOGC. One position is appointed by the Minister of AANDC from the oil and gas industry.

ROLES AND RESPONSIBILITIES

IOGC is a special operating agency within Aboriginal Affairs and Northern Development Canada with responsibility of managing and regulating oil and gas resources on First Nation reserve lands across Canada.

IOGC currently manages the oil and gas resources of more than 50 First Nations with active oil and gas agreements. All funds collected on behalf of First Nations are placed in their trust accounts.

We work closely with First Nation Chiefs and Councils, and their approval is required for all agreements. Our main functions are to assist First Nations that have designated reserve lands in the oil and gas process, as follows:

- Negotiate, issue and administer agreements with oil and gas companies
- Conduct environmental screening
- Monitor oil and gas production and sales prices
- Verify/assess and collect moneys such as bonuses, royalties and rents, and
- Ensure legislative and contract requirements are met

MODERNIZATION OF ACT, REGULATIONS AND SYSTEMS (MARS)

Legislation modernizing the *Indian Oil and Gas Act, 1974* received Royal Assent in May 2009 resulting in the *Indian Oil and Gas Act, 2009*. The updated Act addresses the need to manage all aspects of industry operations on First Nation reserve lands and would help to ensure environmental protection of First Nation lands, to increase regulatory compliance, and to facilitate timely collection of royalties and other monetary compensation. The *IOGA, 2009* will not come into force until new Indian Oil and Gas Regulations have been developed. The *IOGA, 2009* provides for modernized regulations that would align with provincial regimes in key competitive areas and therefore, industry would be working with rulesets that are familiar to them. In this manner, it is expected that reserve lands would be as competitive for industry investment as equivalent to lands off reserve.

The amended Act was developed with the participation of a Joint Technical Committee (JTC), along with the assistance of the Indian Resource Council (IRC). Their work has continued on to the development of the new regulations.

The JTC is a working level committee comprised of First Nation and government members charged with the responsibility to review and comment on proposed changes to the existing *Indian Oil and Gas Regulations, 1995*. This group does not replace individual involvement sessions with First Nations but allows IOGC to access those First Nation representatives with significant oil and gas expertise. Due to the expected complexity of the regulatory amendments, the work was divided into nine themes, representing functional areas within IOGC, with each theme subsequently becoming a regulatory module.

Work in 2012-2013 on the MARS project continued in several key areas:

1. First Nation involvement and outreach
2. Completion of policy basis for new regulations, and
3. Preparation for the implementation of the new on-reserve oil and gas regime

IOGC, in partnership with the JTC and the IRC, continued its work on jointly reviewing and discussing the regulatory modules as they were completed. As part of this process, IOGC is responsible for initiating and finalizing the policy basis for new regulations, while the Department of Justice is responsible for translating that policy into regulations.

With the participation and support of both the JTC and the IRC, by the end of March 2013, IOGC met its targeted milestone for completing both the policy considerations and the regulatory drafting instructions for all nine regulatory modules. Throughout this process, upon request, consultation and outreach with individual First Nations, Tribal Councils, and Treaty areas were conducted. All First Nations with oil or gas production will have an opportunity to be fully engaged on the new regulations prior to their approval and coming into force.

To optimize the implementation of the new on-reserve legislative and regulatory regime, IOGC will be undergoing the most significant organizational re-structuring since the agency was first established more than 25 years ago. The new organizational structure has been designed to effectively implement, monitor, and enforce the new regime. Required tools including modernized business processes supported by enhanced informatics systems will enable effective and efficient business practices.

With the participation and support of both the JTC and the IRC, by the end of March 2013, IOGC met its targeted milestone for completing both the policy considerations and the regulatory drafting instructions for all nine regulatory modules.

RENEWAL OF THE RESOURCE INFORMATION MANAGEMENT SYSTEM (RIMS)

IOGC's Resource Information Management System (RIMS) is the operational database that stores information regarding all surface and subsurface agreements, Indian interest wells and royalty entities. It is also a financial system for both land and royalty transactions, including the calculation of royalties owing to First Nations.

The amended legislative and regulatory regime needs to be effectively implemented, monitored, and enforced to optimize benefits to First Nations. The modernization of RIMS has been planned as part of the operational implementation associated with the modernization of the *Indian Oil and Gas Act* and regulations. RIMS was initially developed in the early 1990s and over the years, many modifications and enhancements have been made to adjust to changing industry practices and ongoing business improvements.

However, much of its underlying data architecture needs to be modified to reflect current industry practices. Given the large number of changes expected as a result of our legislative and regulatory modernization, RIMS also needs to be modernized.

The project to renew RIMS is extensive. As such it is a joint initiative between IOGC and the Information Management Branch of Aboriginal Affairs and Northern Development Canada. Projects of this magnitude are controlled by a staged project management methodology with approvals required at each stage before proceeding. Several stages require approval from the Treasury Board Cabinet Committee, which will determine whether the project can advance and receive funding: The ultimate goal is to deliver current and reliable information that will be accessible to the community level.

This new informatics solution is expected to provide for IOGC membership and data exchange with PETRINEX – the industry and provincially-recognized authoritative source for oil and gas volume and pricing data. A partnership of this stature would provide tangible benefits in the area of more timely royalty assessments and reduced likelihood of under or overpayments of royalties to First Nations.

The amended legislative and regulatory regime needs to be effectively implemented, monitored, and enforced. Along with the systems changes, we are reviewing our existing business practices and processes to ensure synergy and compliance. An analysis of the resulting business requirements from a systemization point of view is also required for increased communications with First Nations about their oil and gas transactions.

In 2011-2012, IOGC initiated and completed process mapping of its current business practices. The current state process maps then were optimized to create efficiencies, reduce duplication, and eliminate gaps. This initiative is now about 40 percent complete. The final stage will be to layer on top of these process maps the administration of the new legislative and regulatory regime, once the regulations are completed.

IOGC has entered into two contracts with consulting groups to address our needs for change management services and the documentation of the business case for system change. A project team is collaborating with staff to develop business process changes, modernize IOGC's activities and support the implementation of the regulations.

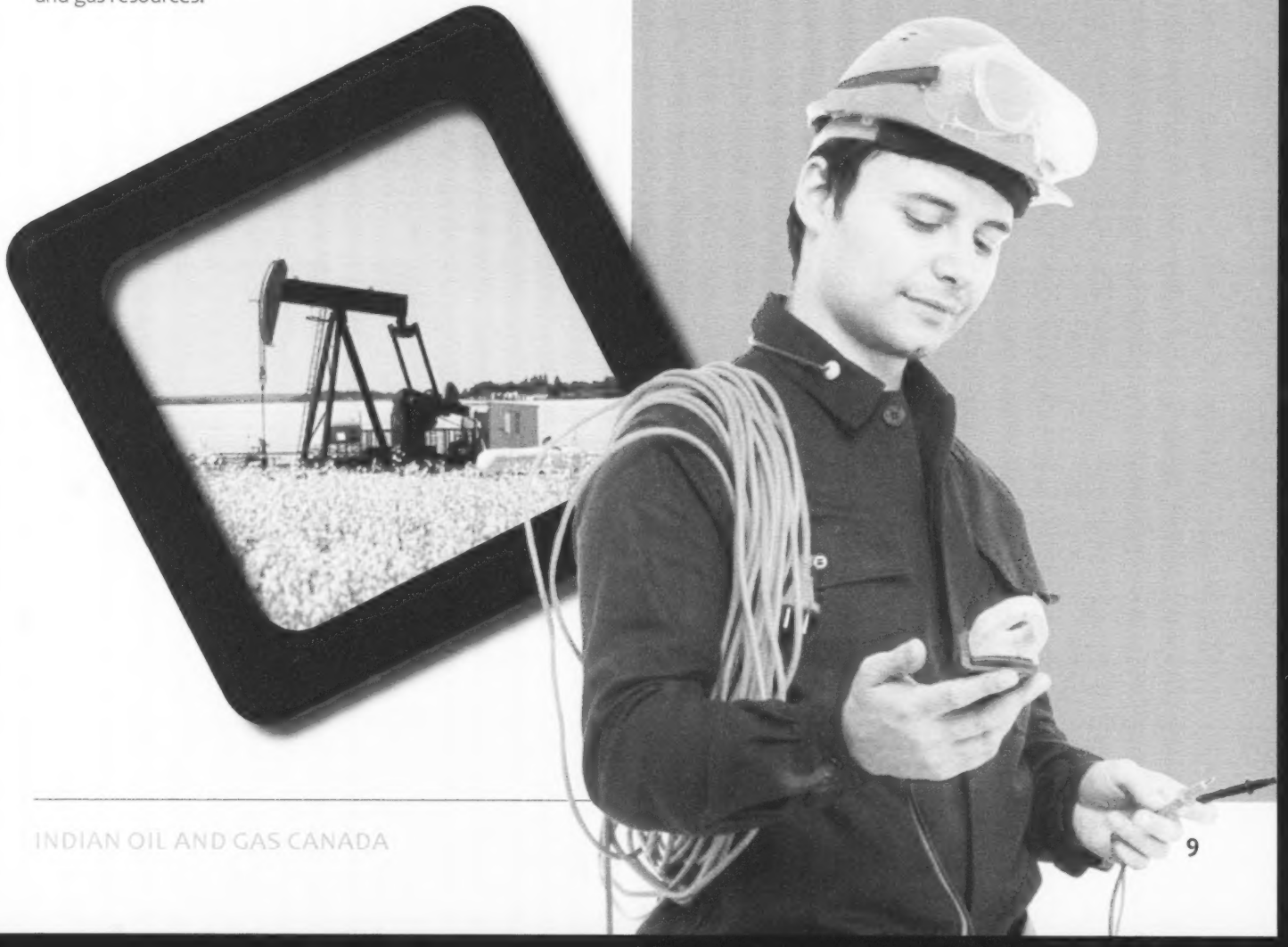
Upon completion of the MARS project, IOGC will have a clear, transparent, effective, fair, sustainable, efficient and easily-administered set of rules in place. This would result in IOGC being better-equipped to deliver on its mandate while optimizing benefits to First Nations from their oil and gas resources.

INTEREST STATEMENT AUTOMATION

IOGC receives monies on behalf of First Nations relating to the exploration and production of oil and gas from their lands.

The goal of this project is to automate the collection of interest on late payments of trust funds through the implementation of effective and efficient business and system processes.

Work continued during the fiscal year to analyze and resolve issues that arose. Completion of this project remains a key priority for IOGC.



IOGC has four distinct units that regulate and manage the exploration and development of First Nation reserve lands:

- *The Executive Unit is accountable for overall agency planning and direction, consultation, policy development, communications, and overall executive and legal services*
- *The Land Unit issues and administers agreements on First Nation reserve lands*
- *The Production Unit monitors production from First Nation reserve lands and ensures the accurate collection of royalties*
- *The Planning and Corporate Services Unit is responsible for corporate planning, finance, administration and human resources*

EXECUTIVE UNIT

THE EXECUTIVE UNIT FOCUSES ON:

- Setting corporate direction and strategy
- Implementation of the directives of the IOGC Board of Directors
- Operational policy development (including legislative/ regulatory amendments) and consultation
- Communications, operational policy and corporate executive services

OPERATIONAL POLICY GROUP

- Support of operational policy development
- Support of new legislation, including the *Indian Oil and Gas Act*
- Advancing proposed changes to the Indian Oil and Gas regulations
- Guiding regulatory module development and progress related to IOGC's MARS (Modern Act, Regulations and Systems) Project
- Involving key parties to obtain input into the above

COMMUNICATIONS/EXECUTIVE SERVICES GROUP

- Disseminating information to First Nations, oil and gas industry companies, the public and government
- Development of Corporate communications and strategies regarding IOGC issues that have the potential to impact First Nations or the private sector
- Development and preparation of briefings on IOGC issues for senior departmental officials and the Minister
- Preparation of communications plans, strategies, reports (including the Annual Report) and correspondence on IOGC activities
- Maintenance of IOGC's website

IOGC Communications personnel provided support to IOGC Executive and other units within IOGC throughout 2012-2013. Efforts focused around providing writing, editing, advice and assistance with briefings, presentations, and correspondence, as needed. IOGC Communications also provided support and communications assistance with the MARS project, and responded to requests related to First Nation, government, media, and public inquiries for information.

LAND UNIT

The Land Unit contains three groups: Negotiations and Subsurface Land Contracts and Administration; Environment; and Research and Surface Land.

NEGOTIATIONS AND SUBSURFACE LAND CONTRACTS GROUP

- Identifying, developing and promoting disposition options with First Nations to increase exploration and development of First Nations oil and gas resources
- Assessing proposals by interested companies and assisting First Nations in reaching agreements with companies by providing expertise to support the negotiations process
- Review, identify and negotiate Surface Lease Rental Amendments that are up for their five year review and prepare amendments for consent by First Nations and companies
- Providing advice to Treaty land Entitlement (TLE) First Nations and working to facilitate the implementation of the TLE process
- Drafting and ensuring the execution and administration of oil and gas agreements, amendments and contractual commitments in accordance with negotiated terms and conditions and with appropriate regulations

During the 2012-2013 fiscal year, IOGC collected approximately $19.5 million for 11 negotiated subsurface dispositions and approximately $2 million for 19 lease selections from permits on behalf of First Nations in Alberta and Saskatchewan. This is a significant increase in bonus dollars collected when compared to the last fiscal year.

Significant royalty changes introduced by the Province of Alberta in 2009 have had an impact on IOGC's work in the last couple of years. IOGC Negotiations unit began a review of agreements this past year to determine how many agreements have been affected by the Alberta Royalty changes and to what extent those agreements have been affected. This review revealed that there continues to be a need to dedicate significant resources to addressing both existing and new agreements issued by IOGC on First Nation lands.

The effect of the provincial royalty changes on IOGC agreements which reference the Alberta Royalty required IOGC Negotiations and Contracts Group to make amendments to several existing agreements and develop IOGC's template agreements for new issuances. These royalty amendments were necessary in cases in which companies could demonstrate that not allowing the changes would seriously affect their economics.

Given that the reduction in the Alberta Royalty was significant, the threat of reducing future drilling programs on existing leases and the possibility of sterilizing some First Nations lands was a challenge that both First Nations and IOGC had to come to terms with in the past year. The Negotiations and Contracts Group worked diligently with all stakeholders, and IOGC was able to reduce the impact to First Nations of these royalty changes by allowing oil and gas companies a royalty similar to the provincial royalty but higher by 5 percent.

This change was implemented in support of IOGC's goal of encouraging economic competitiveness as compared to provincial royalty regimes. The Negotiations and Contracts group was able to ensure every new disposition and every royalty amendment recommended last fiscal year provided a return to First Nations that was higher than both the Alberta and Saskatchewan royalty regimes.

Land Unit Continued...

NEGOTIATED SUBSURFACE PERMITS COMPLETED FROM APRIL 1, 2012 THROUGH MARCH 31, 2013

First Nation	Company	Area Disposed (hectares)
O'Chiese (AB)	O'Chiese Energy (GP) Inc.	2,816.00
Blood (AB)	Kainai Energy Corp.	16,893.90
Loon River Cree (AB)	Harvest Operations Corp.	6,369.00
TOTAL		26,078.90

NEGOTIATED SUBSURFACE LEASES COMPLETED FROM APRIL 1, 2012 THROUGH MARCH 31, 2013

First Nation	Company	Area Disposed (hectares)
Cold Lake (AB)	Tri-Rez Ebay Energy Ltd.	640.00
Frog Lake (AB)	Frog Lake Energy Resources Corp.	1,314.48
Frog Lake (AB)	Frog Lake Energy Resources Corp.	752.79
Frog Lake (AB)	Frog Lake Energy Resources Corp.	935.68
Frog Lake (AB)	Twin Butte Energy Ltd.	3,564.62
Louis Bull (AB)	One Earth Oil & Gas Inc.	140.40
Moosomin (SK)	Sundance Energy Corporation	126.62
Blood (AB)	Kainai Energy Corp.	4,640.87
TOTAL		12,115.46

ENVIRONMENT TEAM

The overall goal for the Team is to ensure that companies are compliant with environmental protection legislation, regulations and IOGC's environmental protection terms. In order to meet this goal, the Team works closely with our industry clients and in partnership with First Nations and provincial oil and gas regulators.

MAIN RESPONSIBILITIES:

- Ensuring that oil and gas surface facilities and activities, including seismic, construction, access roads and pipeline rights-of-way undergo environmental review as required by the Canadian Environmental Assessment (CEAA)
- Review environmental submissions for proposed projects and requiring environmental protection terms to ensure environmental protection within the limits of legislation, regulation and best management practices
- Performing field inspections and reviewing environmental audits to monitor industry compliance with environmental protection terms
- Carrying out reclamation inspections to ensure the land is returned to state that resembles the current and planned environmental land use

In July 2012, the Government of Canada enacted a new *Canadian Environment Assessment Act* (CEAA) that no longer required IOGC to conduct environmental assessments or screening level reviews for oil and gas related activities on Indian Reserves. There may be only rare instances where IOGC might be required to conduct an environmental assessment under CEAA such as for large projects as identified in CEAA's *Regulations Designating Physical Activities*. As such, IOGC developed a new environmental review process to meet CEAA's new requirements whereby IOGC is responsible to ensure that the projects it approves do not cause significant adverse environmental effects. The new Environmental Review process is intended to be more streamlined and continuous improvements will be made to ensure an efficient process while still protecting the environment.

The Environment Team has been extremely busy and prides itself on meeting its service standards and encourages and seeks opportunities with First Nations and industry for continuous improvement.

In this fiscal year, the Team reviewed a total of 167 environmental assessments and environmental reviews for new or amended projects. This number of new or amended projects is down from 295 in the last fiscal year and likely reflects the market conditions.

IOGC expected 862 environmental audits to be received by December 31, 2012. The purpose of the audit is to ensure compliance with the legislative, regulatory and IOGC's environmental protection requirements. Of the 862 IOGC expected, it received and reviewed 725 environmental audits (84% submission rate). The remaining 137 outstanding audits either received a direction to comply (93) or a CEO to CEO letter (44) requiring companies to submit their audits by December 31, 2013. CEO to CEO letters are considered an escalation from the direction to comply letters.

With respect to 474 environmental audits received in December 31, 2011, the Team spent time in the 2012-2013 fiscal year to rectify these non-compliances. In total, 141 direction to comply letters were sent to companies that stated deficiencies were noted. As well, 74 CEO to CEO letters were written to request a resolution of the deficiencies. Overall, IOGC is noting that compliance with receiving audits and compliance to environmental protection terms is increasing overall. Given the newness of the Environmental Audit Management Program, more definitive results and observations will be reported in the future.

In addition to environmental audits, the Environment Team also conducts inspections particularly at older sites where environmental audits are not required or at sites that may be considered higher risk such as being located near residents. The Team also will inspect sites if there are complaints raised by the First Nation members. Depending on the situation, we may request that a provincial oil and regulator also accompany IOGC to a site or vise versa. In this fiscal year, the Environment Team visited 25 Reserves and inspected 181 surface agreement sites ranging from surface leases and right-of-way agreements. Joint inspections with provincial oil and gas regulators were conducted at 3 of the 25 Reserves and 17 of those 181 inspections.

The Environment Team is often the face of the organization in the communities with First Nation members and with our industry clients. The Team works on improving its professional development in the areas of environmental reviews, reclamation, and remediation. The Team is also hardworking and committed to ensure development happens efficiently and in a responsible manner.

The Environment Team also conducts inspections particularly at older sites where environmental audits are not required or at sites that may be considered higher risk such as being located near residents.

SURFACE AND RESEARCH GROUP

- Drafting, executing and administering surface agreements in accordance with negotiated terms and conditions
- Monitoring contractual commitments, rent reviews, assignments and surrenders on First Nation reserve land
- Verifying title and status of minerals for reserve lands to be surrendered or designated
- Verifying title and acreage leased on First Nation reserve lands
- Providing mineral title status of reserve land for the purposes of monitoring activity, land claims and litigation

In 2012-2013, IOGC issued 120 surface agreements, 35 right-of-way agreements, for a total of 155 surface land agreements issued for the year. This is a decrease of 59 dispositions over 2011/12. IOGC targets normally range between about 145-450 agreements issued in a given year.

This decrease in dispositions may be related to a combination of lower industry activity levels as a result of lower commodity prices, and new technologies such as horizontal drilling. Horizontal drilling is increasing recovery rates on existing fields and unlocking value in mature pools, making previously uneconomic finds commercially viable.

On First Nation lands, the number of surface lease applications for multi-well well sites is reducing the production footprint, multiple wells are increasingly being located within one well site. Fewer well sites reduce the environmental impacts of oil and gas development compared to the traditional vertical wells, which require more sites.

In 2013-2014, surface land area under disposition amounted to 10,381 hectares. This is an increase of 135 hectares over the previous fiscal year. This number includes new dispositions minus surrendered dispositions. Surface area under disposition refers to the actual amount of reserve land impacted by oil and gas development. In 2012-2013 the total number of surface agreements under IOGC administration was 4,833. This is a slight increase from the previous year's total of 4,802. We expect this total number of agreements to vary from year to year. However, at some point in time, the number of surface leases will decrease as hydrocarbon resources eventually become depleted.

AANDC decided to decentralize the Indian Lands Registry function from headquarters (HQ) in Gatineau to the regions and IOGC as part of the DRAP (Deficit Reduction Action Plan), as a result of the change to Indian Lands Registry the regions are now directly responsible for registering agreements directly with the Indian Lands Registry System. IOGC's manager of Surface Land and two land administration staff received training in the ILRS system November 2012 at HQ.

The responsibility for registration of agreement onto the Indian Lands Registry was officially delegated to the regions and IOGC on December 1, 2012. IOGC staff continues to work with the regions and HQ on the implementation of registration duties at the IOGC & regional level.

The TLE process has brought what is known as Surface Only Reserves to the forefront, which continues to present challenges to IOGC. As a result of the TLE process some First Nation reserve additions are for Surface Rights only. A Surface Only Reserve is created when a First Nation is unable to purchase the fee title mineral rights to a parcel of lands, even though it may own the surface rights of that land. IOGC, in consultation with Department of Justice has determined that Oil and Gas Surrender and Designations are required for Surface Only reserves to fall within our jurisdiction.

TREATY LAND ENTITLEMENT

Treaty Land Entitlement (TLE) claims are a type of land claim arising from the fact that some First Nations did not receive all the land they were entitled to under treaties signed with the Federal Crown.

For Alberta and Saskatchewan First Nations that signed or adhered to Treaties 4, 6, 7, 8 and 10, which were concluded between 1874 and 1906, treaties generally required the Government of Canada to allocate reserve land to First Nations based on the size of each family. Many of the reserve land obligations, however, were not fulfilled at the time of treaty due to inaccurate counts of band members or because not enough land was set apart when reserves were first surveyed. Today, the TLE process exists to fulfill these outstanding obligations.

One of IOGC's primary roles under the TLE process is to assist with the replacement of third party interests when reserves are being created pursuant to a TLE claim. IOGC replaces agreements that are oil and gas related and can be administered according to the *Indian Oil and Gas Act and Regulations* once the lands become reserve under Federal title.

In 2012-2013 IOGC's TLE group drafted 24 replacement agreements. As of March 31, 2013 there were currently 471 active replacements being administered by IOGC on behalf of several TLE First Nations. The group also completed assignments for another 71 agreements. There are also another 305 replacement agreements that have been drafted and are ready to fall under IOGC administration as soon as their associated lands achieve Reserve status. IOGC TLE has been able to stay in front of demand with respect to preparation of TLE replacement agreements; this past fiscal IOGC TLE has processed every TLE First Nation request for replacement agreements and the ATR (additions to reserves) process is not being delayed as a result of any activity pending at IOGC.

IOGC TLE Group continues to develop effective working relationships with all TLE stakeholders in the Reserve creation process and this past fiscal was requested to present information on their process to the Federation of Saskatchewan Indian Nations in March 2013. The IOGC TLE group also participated as a presenter at the Saskatchewan Aboriginal Land Technicians annual meeting in Saskatoon.

IOGC TLE continued their efforts to standardize and streamline the replacement agreement process. Although the standardized replacement agreement templates are finalized IOGC TLE still gets some requests by potential lessees to modify the template. In these instances IOGC TLE group continues to work with our Department of Justice representatives to assist the lessee and First Nations to make sure the templates meets IOGC's administrative requirements and fulfills Canada's requirements under the Treaty Land Entitlement Framework Agreement.

During the past year IOGC TLE collaborated with the Province of Saskatchewan and AANDC Saskatchewan region and provided input with respect to new procedures for subsurface replacement agreements issued under section 5.08 of the Saskatchewan Treaty Land Entitlement Framework Agreement.

The TLE group also continued their work with AANDC and IOGC environment groups to develop a procedure that will ensure IOGC is receiving pertinent environmental information for all active TLE files which are required for audit and environmental risk analysis purposes. This information is now being forwarded to IOGC and is reviewed by the IOGC Environment group.

This past fiscal IOGC TLE continued to build on previous success of forming working groups consisting of all TLE stakeholders in the additions to reserve process to assist TLE First Nations in getting their TLE lands to Reserve quicker.

PRODUCTION UNIT

IOGC's Production Unit is responsible for those operations most closely related to the production of oil and gas. The main operational areas of the division are:

- Tracking and monitoring the drilling of oil, gas and service wells
- Ensuring proper measurement and reporting of oil and gas production volumes
- Ensuring First Nations' royalty share of oil and gas volumes are valued at fair prices
- Accurately assessing oil and gas royalties for First Nations and ensuring royalties are collected
- Reviewing technical applications submitted by companies to provincial regulatory authorities and which could potentially impact First Nation reserve lands
- Providing yearly revenue forecasts to First Nations and the regional offices for budgeting purposes
- Evaluating oil and gas leases for continuance and
- Providing technical evaluation where required as part of the review and processing of leases at the end of their primary and succeeding terms

The Production Unit also includes the Informatics Group. This group is responsible for maintenance of the local area network and corporate data systems used by IOGC, and provision of support for corporate software including finance, word processing, spreadsheet and graphics-based programs.

CAPP-IOGC SUBCOMMITTEE

IOGC is pleased to have a regular venue with a subcommittee of the Canadian Association of Petroleum Producers (CAPP). Since April 2012, IOGC and CAPP have been meeting quarterly to discuss topics and issues of common interest. IOGC values the forum where it can obtain input and feedback on policies, procedures and processes, both existing and proposed. Discussions have regularly included updates on IOGC's MARS (Modern Act, Regulations and Systems) Project as well as other agenda items typically relating to royalty.

Fortunately more recent meetings have also included representatives of Explorers and Producers Association of Canada (EPAC) so that IOGC can obtain input from a very broad segment of industry. IOGC's goal is to have processes and procedures that function well for industry, with an aim of improving service to First Nations. IOGC looks forward to continuing the dialogue.

PRODUCTION OF OIL AND GAS

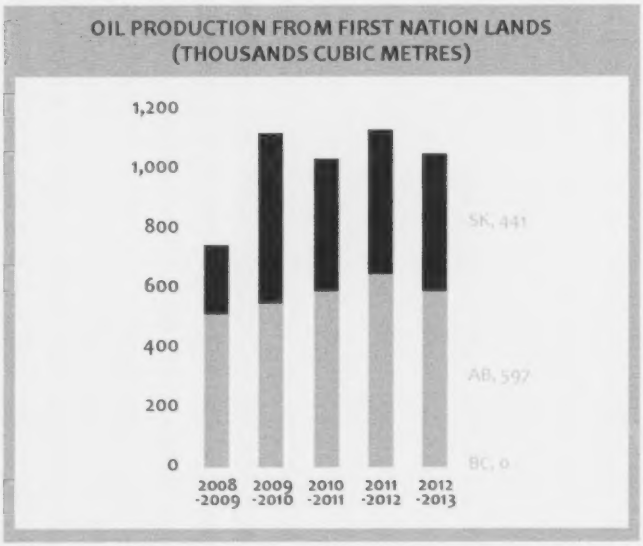
PROVINCE	TREATY AREA	NUMBER OF INDIAN RESERVES
Alberta	6	24
	7	6
	8	16
British Columbia	8	3
Saskatchewan	2	2
	4	1
	6	17
TOTAL		69

OIL

Fiscal year 2012-2013 was another very good year for oil production from First Nation reserve lands. Total oil production was 1.0 million cubic metres, about a seven percent drop from the previous year's total of 1.1 million cubic metres, which was the highest level ever. Fiscal year 2012-2013 is the fourth strong year for oil production and shows the industry's continued focus on development of oil resources since the gas price drop in 2009 that made development of most gas resources uneconomic. Heavy oil comprises the majority of oil production from First Nation reserve lands and is currently being produced with primary production technology, usually with the method known as CHOPS (cold heavy oil production with sand).

During the fiscal year, oil was produced from 40 Indian reserves, corresponding to the lands of 30 First Nations. The number of First Nations with oil production increased slightly from two years ago, when production occurred from the lands of 28 First Nations. In fiscal year 2012-2013, heavy oil production from the top two First Nations comprised about 75 percent of all oil production.

The provincial breakdown of total oil production from First Nation reserve lands in the last three years has seen Alberta with the majority of oil production but with Saskatchewan a close second. The only year where oil production from Saskatchewan surpassed that of Alberta was fiscal year 2009-2010, when much of the drilling took place at one First Nation in Saskatchewan. In prior years, the oil production from First Nation reserve lands in Alberta greatly exceeded that from lands in Saskatchewan.



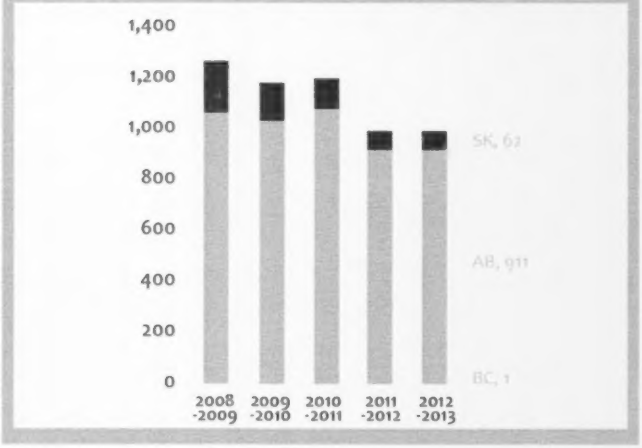
Production of Oil and Gas Continued...

GAS

During fiscal year 2012-2013, gas sales volumes from First Nation reserve lands remained almost the same as the previous fiscal year, which had dropped about 17 percent from the year before that. The overall trend over the past dozen years has been one of declining gas production. Total gas sales volumes in fiscal year 2012-2013 were 974 million cubic metres, less than half of the approximately 2000 million cubic metres that were produced in fiscal year 2005-2006. With few gas wells being drilled and low gas prices expected to persist for some time, we anticipate that overall First Nation gas production will continue to decline.

During the fiscal year, gas production occurred on 59 Indian reserves, corresponding to the lands of 42 First Nations. Gas sales volumes from the top three First Nations comprised almost 70 percent of the total gas sales volumes from First Nation reserve lands.

GAS SALES VOLUMES FROM FIRST NATION LANDS (MILLION CUBIC METRES)

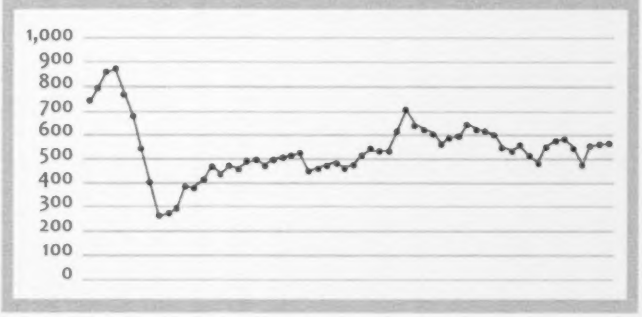


PRICES

OIL

Prices for light, sweet crude oil have generally remained constant from last fiscal year through this fiscal year, mostly in the range of $500/m^3 to $600/m^3. About two thirds of crude oil produced from Indian lands recently has been heavy oil. The price of Western Canada Select crude oil, a Canadian heavy crude oil benchmark, has fallen slightly in fiscal year 2012-2013 relative to previous fiscal years. Heavy crude oil sales have remained strong, however, with most heavy crude oil produced from Indian lands exported to the United States. In the future, pipeline capacity constraints may curb heavy crude oil sales and prices.

MONTHLY OIL PRICES OVER LAST FIVE FISCAL YEARS (Edmonton Reference Price $CDN/m^3)

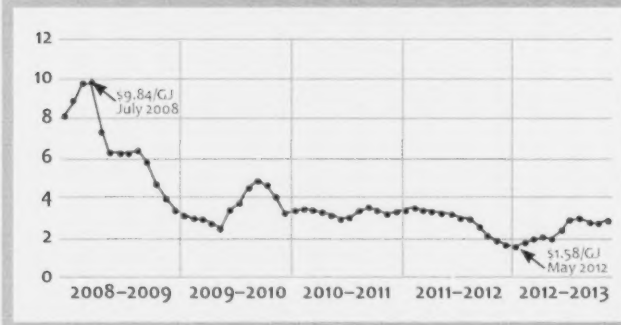


Prices Continued...

GAS

Natural gas prices remain at historically low levels. The low prices are mainly due to the large increase in the supply of gas due to advances in drilling technology. Recent technologies such as horizontal drilling combined with multi-stage fracturing (fracking) have enabled drillers to obtain gas from previously uneconomic gas formations such as tight gas formations. The proliferation of new gas found close to the US East Coast markets in places such as New York, Pennsylvania and Ohio has generally led to reduced sales of Canadian gas, reduced investment and lower gas prices.

MONTHLY GAS PRICES OVER LAST FIVE FISCAL YEARS
(Alberta Reference Price $CDN/gigajoule)



ROYALTIES

The business objective of royalty administration is to ensure accurate administration of the net royalties due as per negotiated agreements for Oil and Gas production on First Nation Lands. This is achieved through a monthly submission process by Royalty payors and an assessment process by IOGC, which results in Net Royalties payable for any production of oil, gas or associated products where an interest in production is attributable to First Nation oil and gas rights from reserve lands in Canada.

Over fiscal 2012-2013 the Royalty group undertook various initiatives as part of MARS. It increased its engagement with different stakeholder groups and continued to improve its processes. Industry engagement through the CAPP – IOGC sub-committee provided valuable industry insight towards improving operational procedures.

PLANNING AND CORPORATE SERVICES UNIT

The Planning and Corporate Services (PCS) Unit's key responsibilities include management planning, administrative policy, human resources, finance, procurement and administration. PCS also acts as secretariat to the IOGC Co-Management Board. The PCS Division includes four groups: Contracts and Administration, Finance, Human Resources; and Planning & Coordination.

CONTRACTS AND ADMINISTRATION

- Managing the contracting process
- Providing office administration, facility and security services
- Managing records and information, maintaining the resource library and providing *Access to Information and Privacy Act* (ATIP) services
- Coordinating purchasing

FINANCE

- Providing corporate financial services
- Administering the decentralized IOGC operating budget and centralized salary budget
- Receiving and administering First Nation trust funds
- Administering accounts payable and receivable

HUMAN RESOURCES

- Administering the job classification, compensation and benefits, labour relations and other programs required by IOGC as an organization with separate employer status
- Developing human resources plans
- Supporting management in the staffing and recruitment process
- Coordinating corporate training and employee career development

PLANNING AND COORDINATION

- Developing the annual IOGC Management Plan and coordinating progress reviews against the plan
- Coordinating input to a variety of AANDC plans and reports
- Developing administrative policy and implementing AANDC initiatives
- Supporting the Co-Management Board and providing secretariat services

PCS ACCOMPLISHMENTS

Accomplishments in 2012–2013 include:

- receipt of $176.7 million dollars on behalf of First Nations
- approval of a Values and Ethics Code and subsequent training to all staff
- completion of pre-implementation activities related to the IOGC reorganization announced in November 2012 and effective April 1, 2013
- development of the 2013-2014 Management Plan which continues to be based on IOGC's strategic framework illustrated on page 23
- implementation of two new performance measurement indicators for a total of six indicators
- ongoing procurement, office administration and information management services to the organization

HUMAN RESOURCES AT IOGC

At IOGC, we fully recognize that our people make our organization what it is. We are proud of our diverse workforce and our employment equity representation levels which exceed labour market availability. Tremendous synergy results when differing viewpoints, skill sets and experiences are brought together. IOGC employees are professional and bring their best to the achievement of our organization's mandate, vision and values.

IOGC strives to be a workplace of choice and this is an essential spoke on our Strategic Wheel illustrated on page 23. IOGC believes in being a learning organization and each employee has a personal annual learning plan. IOGC offers in-house French language training, numerous "lunch and learn" training sessions which focus on well-being as well as annual Aboriginal Cultural Awareness training. In addition, various other in-house training was provided on ergonomics, the treaty land entitlement process and workplace tools such as CIDM and IRIMS. IOGC offers a tuition reimbursement program for those employees pursuing professional development outside of work hours. IOGC also has available an Employee and Family Assistance program for use by staff.

IOGC actively promotes work-life balance and utilizes compressed work weeks, flexible hours of work and telework, as approved through the IOGC Telework Policy. Our Pride and Recognition program is used to reward employee achievements and recognize staff with long term service. IOGC maintains its own Committee for the Advancement of Native Employees (CANE). In February 2013, two IOGC employees received the Queen Elizabeth II Diamond Jubilee Medal for their tremendous work and longstanding dedication to supporting the local community.

2013–2014 ORGANIZATIONAL PRIORITIES

IOGC's Management Plan for 2013-2014 is focused on advancing IOGC's strategic framework, established in 2010-11, which encompasses the following four directional priorities, as outlined on the following page:

- Excellence in Governance
- Excellence in Oil and Gas Management
- Workplace of Choice, and
- Effective Relationships

These strategic directions help move the organization towards achieving its vision to be a 'modern regulator' of First Nation oil and gas resources. Core to the success of the organization are our values of respect for democracy, respect for people, integrity, stewardship and excellence.

The IOGC Management Plan is aligned with the objectives of the Lands and Economic Development Sector, and is designed to strengthen the contribution IOGC makes to enhance the value of Aboriginal assets by supporting development of First Nation oil and gas resources.

From a planning perspective, key trends anticipated to impact operations in 2013-2014 include: continued weak economic growth; a predicted slow-down in activity in the Western Canadian oil and gas sector; lower oil and gas prices; the effects of the 'bitumen bubble' and ongoing pipeline capacity constraints; changes to provincial regulatory arrangements including the creation of the new Alberta Energy Regulator; an ambitious federal legislative agenda; and increasing environmental concerns, particularly in the area of hydraulic fracturing. As well, tight labour markets and upcoming retirements continue to be a concern.

Based on its strategic direction and an analysis of its planning environment, IOGC will continue to focus on three key projects:

- Modern Act, Regulations and Systems (MARS), IOGC's top priority in 2013-2014
- Interest Statement Automation, and
- Royalty Management

In addition, IOGC will begin the year with a renewed organizational structure that will better position the organization to address the changes anticipated by the *Indian Oil and Gas Act, 2009* and new Regulations.

IOGC STRATEGIC FRAMEWORK

2012–2013 FINANCIAL OPERATIONS

FUNDING – O&M, CONTRIBUTIONS & TRANSFERS			**16,405,813**
O&M			
Salaries		7,470,265	
Expenses			
IOGC Brand	528		
Inventory Management	8,976		
Negotiations Disposition/Amendment	12,167		
Agreement Managment	919		
Compliance	1,031,209		
Policy Management	0		
Informatics	169,210		
Corporate Managment	755,253		
Environment	56,737		
Royalty	76,249		
Direct Operations Support	251, 447		
IOGA Implementation	1,947,917		
FNOGMMA Implementation	0		
Suspense	8,295		
TLE	147,988		
Total Expenses		4,466,893	
CONTRIBUTIONS			
IRC – Partnership	600,000		
IRC – IOGC Board	80,000		
Total Contributions		680,000	
TRANSFERS			
Salaries	163,000		
O&M	1,879,850		
Contributions	1,533,000		
Total Transfers		3,575,850	
Total O&M, Contributions & Transfers			16,193,008
Surplus/Deficit			212,805
REVENUES COLLECTED ON BEHALF OF FIRST NATIONS			
Royalties		120,940,581	
Bonus		22,044,032	
Compensation and Rentals		14,440,649	
Treaty Land Entitlement		19,048,790	
Interest		231,582	
Total Revenues Collected on Behalf of First Nations			176,705,633

Indian Oil and Gas Canada
Suite 100, 9911 Chiila Boulevard, Tsuu T'ina, AB T2W 6H6
Tel: 403-292-5625 Fax: 403-292-5618 **www.iogc-pgic.gc.ca**